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Annual allowance and carry forward

What is the annual allowance?

The annual allowance is the maximum value of pension savings an individual can make each year while benefiting from tax relief.

Think of it this way: an individual's income each year determines how much tax relief they can claim, and the annual allowance determines how much they can keep.

How much is the annual allowance?

The standard annual allowance for the current tax year is £60,000. However, there are variations which may affect people. If individuals haven't fully used their annual allowance in previous tax years, they may be able to use carry forward to get a higher annual allowance. Those who are higher earners, or have already accessed some of their pension benefits, may be subject to the tapered annual allowance or money purchase annual allowance (or both). Please read our separate factsheets on these topics for more information.

What kinds of pension savings count towards the annual allowance?

For those below age 75, personal contributions and third-party contributions (including the value of the tax relief) count towards the annual allowance. All employer contributions also count towards the annual allowance.

For those who have a defined benefits scheme (where pension benefits are based on factors such as salary and years of service), the benefits built up during the year also count towards the annual allowance. The defined benefit scheme will be able to confirm the value that will count towards the annual allowance.

Remember that the annual allowance doesn't apply per pension scheme; it applies to all pensions collectively.

Carry forward

Carry forward is a way for individuals to increase their annual allowance in a given year by using up unused allowance from previous tax years. It's important to note that carry forward can increase the annual allowance or tapered annual allowance, but it has no effect on the money purchase annual allowance (MPAA).

If an individual has a pension input amount of more than the AA in a tax year, they may not necessarily be liable for an AA charge in that tax year. They can carry forward any AA that they've not used in the previous three tax years. The amount of unused AA can then be added to the AA in the tax year in which it's being carried forward to in order to provide a higher AA to offset against that year's pension input amount.

To carry forward unused AA from a previous year, the individual must have been a member of a registered pension scheme at some point in that tax year. For this purpose, member includes active member, pensioner member, deferred member or pension credit member.

It's worthwhile pointing out that it's unused AA that is being carried forward and not unused tax relief.

The annual allowance (AA) charge

The AA charge is a tax charge on the individual. It arises where the total pension input amount for the individual in respect of the tax year exceeds the amount of the AA plus any unused AA available from carry forward. The AA charge is levied on the excess.

The rate at which the AA charge is levied depends on the 'reduced net income' of the individual and the amount of the excess they have in the tax year. To calculate the amount of the charge involves working out the rate or rates of tax that would be charged on the excess pension savings assuming it was added to the individual's reduced net income for the tax year.

Those who exceed the annual allowance need to tell HMRC by including the details on their self-assessment tax return.

How to pay an annual allowance charge

If an annual allowance charge still arises after the use of any carry forward, there are two ways to pay this charge. People can either pay the charge themselves by way of their self-assessment tax return, or under some circumstances they can arrange for their pension scheme administrator to pay the charge and reduce their pension accordingly – which is known as scheme pays.

What is scheme pays?

Scheme pays is a system which allows the pension scheme administrator to pay the annual allowance charge on a member's behalf, in exchange for an equivalent reduction in their pension benefits. The charge is effectively paid from the pension. Schemes have to offer this in certain situations – known as mandatory scheme pays – but can also offer it when these conditions aren't met, which is known as voluntary scheme pays.

Mandatory scheme pays

Scheme administrators are only obliged to offer scheme pays if the following three conditions apply:

- The total annual allowance charge for the tax year exceeds £2,000.
- Savings into that pension scheme during the same tax year exceeded the annual allowance.
- The member notifies the scheme administrator that they intend to use scheme pays by 31 July in the year following the tax year in which the charge arose (for example, by July 2027 for a charge which arose in the 2025-26 tax year).

For the second condition to apply, the savings must have exceeded the normal annual allowance (e.g. £60,000 for the 2025-26 tax year). This applies even if the individual is subject to a lower annual allowance, such as the money purchase annual allowance (MPAA) or tapered annual allowance.

Voluntary scheme pays

Where an individual doesn't meet the conditions for scheme pays to apply or they don't make their nomination in time then a scheme may decide to pay the member's AA charge on a voluntary basis.

Appendix (level of allowances, current and historic)

AA

2006-07 £215,000
2007-08 £225,000
2008-09 £235,000
2009-10 £245,000
2010-11 £255,000
2011-12 £50,000
2012-13 £50,000
2013-14 £50,000
2014-15 £40,000
2015-16 pre-alignment tax year £80,000
2015-16 post-alignment tax year £0*
2016-17 to 2023-24 £40,000 (tapering applies to high income individuals)
2023-24 onwards £60,000 (tapering applies to high income individuals)

* £40,000 if individual wasn't a member of a registered pension scheme at any time during the pre-alignment tax year.

MPAA

2016-17 £10,000
2016-17 to 2022-23 £4,000
2023-24 onwards £10,000

Alternative AA

(where MPAA has been triggered)
2016-17 £30,000 (tapering applies to high income individuals)
2017-18 to 2022-23 £36,000 (tapering applies to high income individuals)
2023-24 onwards £50,000 (tapering applies to high income individuals)

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